

people in focus

The Grant Thornton periodical
focussing on people and
relationship issues in management

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In this edition of People in Focus, we look at making a success of **succession planning**.

All businesses need to take steps to plan for changes in ownership and in this respect family businesses are no different. However, there is a clear difference in how family businesses would like to see this change happen.

The most favoured option for family businesses is for the next generation to take the helm, with the second preferred option being a merger. This is in marked contrast to the likely changes for non-family businesses across Europe. For them a trade sale is the favoured way of changing ownership and they are also more likely than family businesses to consider bringing in private equity investors.

Five most common ways to exit your business are:

1. Trade sale
2. Management buy out/management buy-in/institution buy out
3. Initial public offering
4. Private equity
5. Transition to family members

Flotation, management buy-out and sale to employees are amongst the options least likely to be considered by family and non-family businesses alike.

This discrepancy between the aspirations of owners and the reality of succession could be due to a number of factors. However, in our experience, the most likely is that the next generation has no intention of taking on the management of the family business. This further highlights the importance of planning for the future sooner rather than later, considering all possible options and taking appropriate measures to ensure

that the business generates the maximum value for the family.

Options currently considered as likely ownership changes for the business in the future (%)

	All family businesses
Pass to the next generation	28
Merger	23
Trade sale	20
Management buy-out/buy in	14
Bring in private equity investors	13
Sales to employees	13
Flotation	6

Source: Grant Thornton International Business Owners Survey, 2005
Surveying over 6,000 medium sized companies in 24 countries,
3,023 of which were family businesses.



The **decision** to exit

Some of the issues you need to consider:

- When is the best time to exit?
- Is the business performing well/poorly?
- Have current economic conditions affected the business or industry?
- Does the business have contingent liabilities such as impending legal problems?
- How will the exit affect your personal finances and those of your family?
- How will the exit affect your employees?

It is important to remember that a business is rarely sold overnight. Planning over a period of time - usually years - can help to maximise the value obtained.

When you are heading towards the exit or planning for a change in ownership, a number of questions need to be

addressed, whatever your preferred route:

1. What do you want to be doing in three to five years time and how much do you need to finance these plans?
2. What can be done to make the business more attractive to a potential purchaser?
3. Has the business a good track record in recent years? Profitability is the prime driver in the value obtained when selling
4. Does the business have strong profit projections?
5. Is this the right time to sell?
6. Is there any uncertainty with the business, such as ongoing disputes, staffing issues, outstanding claims, etc?
7. Can the business demonstrate a good management team?
8. Do first impressions provide a good insight into the business?

Consider the buyer

Potential buyers or entrants to your

business are also going to have some questions about the business. You should consider these frequently asked questions:

- Who are the key employees?
- Does a business/strategic plan exist?
- Is the owner inextricably linked to the business?
- Can the business operate without the key owner?
- Are there audited financial statements?

Ultimately a buyer is looking for a good investment. You need to make your business more attractive by improving key factors. Remember - full and frank disclosure will underpin buyers confidence!

For further information on succession planning in your business, contact your local Grant Thornton representative.

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